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KEVIN KENDRICK IRY
CONGRESSIONAL INFO SVC
4520 EAST WEST HWY STE 800
BETHESDA MD 20814

Cadillac Fairview's James Bullock:

An ICSC president for the times

ICSC SPRING CONVENTION

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RETAILING IN THE YEAR 2000

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SHOPPING CENTER AGE

DEVELOPERS DEVISE WAYS TO INCREASE CENTER APPEAL

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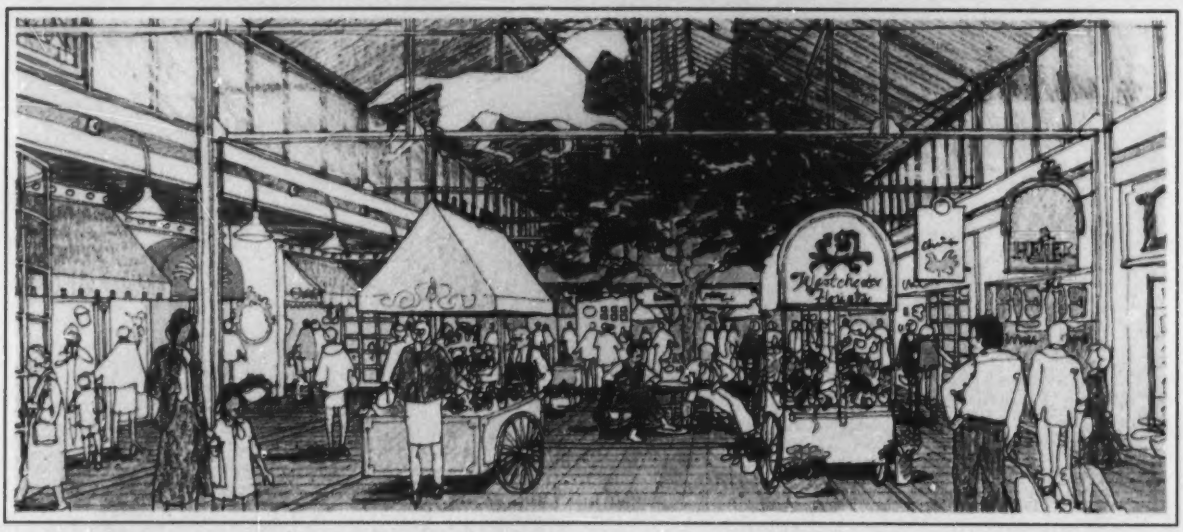

PRINCETON MARKETFAIR: NEW LIFESTYLE

Tomorrow's consumers will demand new shopping center choices. JMB/Federated Realty Associates is already responding with the creation of this new enclosed center, scheduled to open in July. Appealing to the lifestyle of affluent Princeton, N.J., the center's anchors include Cohoes and Super Sports U.S.A. *124*

JAMES BULLOCK STEPS INTO ICSC PRESIDENT POST

The president of Cadillac Fairview Shopping Centers won't have much time to sit in his office in the months ahead—an office that overlooks Toronto's Eaton Centre. Instead, he will be embarking on a tour of duty as the head of the shopping center industry association. *31*

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OAKCREEK VILLAGE: STILL ROOM FOR MORE CENTERS IN NORTH CAROLINA

OVERBUILDING: A REAL OR IMAGINED ISSUE?

OPINIONS DIFFER AS TO WHETHER OR NOT THERE ARE TOO MANY SMALL CENTERS

Drive down certain streets in Miami or Houston and the panorama isn't one of beach or prairieland but rather mile after mile of strip shopping centers.

The logical question, when facing this landscape, is: Are there too many centers?

Nationwide, the number of small centers has increased dramatically *(see chart)*. However, small center developers and management companies surveyed by *Chain Store Age Executive* maintain that despite this boom, the country as a whole is not overbuilt with shopping centers.

There are, though, some states (Florida, and the oil-depressed areas of Texas, Oklahoma and Louisiana) that may have more retail real estate available than the market demands. In these areas in particular some developers turned to shopping centers when the demand for office space went bust; they also built centers in anticipation of market growth that never materialized.

"During the last 12 to 18 months, we have seen a number of areas becoming overbuilt, but it's a regional situation, not an overall problem," says Bob Johnson, executive vp of Kansas City-based Leo Eisenberg, one of the nation's largest small center developers and a company actively constructing them all over the country.

Leo Eisenberg has long been involved in small center construction, as have a number of other companies. In the case of the majority of projects undertaken by such developers, the planning process was well drawn and the *pro forma* accurately put together. That hasn't always been the case, however, for some of the newer players in the small center development field; it is these new players that have caused the spread of reports of small center overbuilding.

As Johnson explains, the surge in small center development came about because "few malls were being built and fewer office buildings and apartment complexes were being developed. These people were looking for something to do and retail was hot. At the same time, interest rates dropped and cheap money became available. This served to add even more to the apparent attractiveness of small centers."

"It's been easy to build," agrees John Tuthill, president of Southmark Commercial Management's retail division, which manages 114 properties, most of them strips.

He points out that not only did other companies move into the shopping center field, "But over the past five or six years we have a pretty strong economy in most parts of the country. That caused a lot of people to say 'That's great. Let's build some small centers and cash in on this.' But what happened is that some people built centers in poor locations because they didn't know how to evaluate sites properly. Now some of these same people may be trying to attribute their current problems to reports of overbuilding."

In addition, under the old tax laws, real estate syndications were an attractive way to shelter income; investors in syndications could write off any losses related to their investments in shopping centers and other types of real estate. There was plenty of this money available.

One of the problems, though, relating to some of the small centers financed by syndications is that these weren't built for long-term investment returns, but rather with the express aim of being able to deduct operating losses or for selling these properties for a fast return.

"Because certain deals were put together for losses, some are problem properties that shouldn't have been built," says Leo Eisenberg's Johnson, adding that unanchored centers in particular are in jeopardy. "The future of these centers will depend on their location. If they're in a soft area, they'll have trouble."

One benefit in the tax law changes may be alleviating such problems in the future. However, an immediate result has been the placing of a large number of small centers on the auction block.

Small center specialists note that

no one is buying batches of these properties indiscriminately. "We're looking for deals," says Johnson. "But we're also being careful. The centers have to have a solid cash flow."

Tuthill sees most developers as taking a similarly cautious approach. As a result, despite an unusual degree of small center availability, "We're not experiencing any shark-frenzied pace of acquisition."

These centers, however, are only one component of the overbuilding situation, whether real or just perceived. The popularity of certain geographic areas has also caused shopping center construction booms in certain areas; when the economy in such areas suddenly falters, the opportunities dry up quickly.

For example, Tuthill admits that "In Texas and Oklahoma, the number of opportunities to build new centers isn't what it used to be."

Small center development

	No. of centers		Total GLA (in millions of sq. ft.)	
	1980	1986	1980	1986
1. CALIFORNIA				
less than 100,001 sq. ft.	2,100	2,299	98.8	118.5
100,001-200,000 sq. ft.	424	582	62.7	86.9
200,001-400,000 sq. ft.	127	168	29.8	47.9
2. TEXAS				
less than 100,001 sq. ft.	1,295	1,695	78.5	85.4
100,001-200,000 sq. ft.	432	542	45.8	76.5
200,001-400,000 sq. ft.	103	132	26.6	36.2
3. FLORIDA				
less than 100,001 sq. ft.	832	1,279	39.3	70.3
100,001-200,000 sq. ft.	299	508	34.2	54.0
200,001-400,000 sq. ft.	102	158	24.5	43.5
4. NEW YORK				
less than 100,001 sq. ft.	590	709	31.5	37.9
100,001-200,000 sq. ft.	187	288	26.8	40.0
200,001-400,000 sq. ft.	103	117	28.0	33.3

Source: ICSC Census of Shopping Centers; 12/31/80 and 12/31/86.

Like other developers, he notes that the oil industry's downturn has hurt the economy in these areas in general, but he maintains that while "Texas does have a lot of strips, I don't think it has more than it needs."

He makes a distinction between those markets where the economy is depressed and those in areas of Florida where commercial building has simply outpaced the anticipated growth in population. "I think a lot of people read John Naisbitt's *Megatrends*, took his advice and decided to build in Texas, Florida, California and D.C.," he notes, adding, "They're finding that conditions aren't matching that study they did four years before."

In their eagerness to cash in on the Florida population boom (a growth that has been more gradual than explosive), developers might have "gotten a little carried away," says Todd Cooper, vp of Kimco, Roslyn, N.Y., which has 32 Florida properties in its 124-shopping center portfolio.

He believes that large companies such as his are in a better position to weather such highly competitive conditions. "We've owned centers for 20 years and therefore don't have to get as high a rent as someone who's building now." He also foresees the pace of strip center construction slowing across the board, predicting, "You're not going to see the same type of growth in the future as you have during the past few years."

However, it's already produced a situation in some markets where developers "just lease space for whatever they can get," says Curtis Webster, vp of Pacific Realty's retail division, headquartered in Los Angeles. "This hurts the good centers and good developers because these people are just giving everything way."

He reports that some center developers are even using the types of incentives initiated by office space developers; they are enticing retail tenants with give-aways such as "one year's free rent, total turn-key finishout, or letting mom-and-pops put caps on the common area maintenance charges," Webster reports.

Yet, most experienced shopping center developers/managers don't appear to be too worried.

For example, while stating her opposition to such leasing discounts and incentives, Darlene Radwin, vp-marketing for Kingston, Pa.-based Mark Development, says, "We're confident enough in our centers and their markets not to have to compete on price. We're also true believers in the theory that the most expensive thing you'll ever pay for is cheap rent."

In fact, instead of using price-cutting methods, more savvy developers appear to be trying to maintain their competitive edge by improving advertising and marketing programs.

"Developers are finally realizing that even though you have a 100% leased strip center, advertising and promotion can be very effective," Radwin explains.

"We're having to do more marketing," agrees Webster. "We have to create better brochures, buy more advertising."

As Southmark's Tuthill admits, "We in the strip business haven't been as focused on merchants associations and we need to put more efforts there." Therefore, at his company, "We've just rewritten our marketing manual and have put marketing people in all our regions."

Along with marketing a center better, renovations (generally a considerably costlier tactic) can also certainly help a property retain its competitive advantage. And it's a strategy being used more and more often.

"When a new strip gets built and we're there with old canopies and a beat-up parking lot, then it's time to totally redo. We have no choice but to renovate," observes Kimco's Cooper.

Similarly, Pacific Realty's Webster reports that at some of his company's centers, "We're creating a lot more food courts and expensive exteriors than we did five or six years ago and making sure that we have more than adequate parking."

Such activities are also an example of the "cleansing process" at work in the industry, points out Tuthill, who adds that he believes that the greater competition in the industry will continue to "weed out inefficiency."

"All good developers today are doing well," says Leo Eisenberg's Johnson. "The industry is healthy and strong and as long as people do their homework, their future is very bright." ■